

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 FEA-01 ERDA-05

AID-05 CEA-01 CIAE-00 COME-00 EPG-02 DODE-00

FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 OES-07 SP-02 SS-15 STR-04

TRSE-00 ACDA-07 /119 W

-----170010Z 018624 /15

R 161244Z MAY 77

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 8031

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

USINT BAGHDAD

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY VIENNA

LIMITED OFFICIAL USE KUWAIT 2663

E.O. 11652: N/A

TAGS: ENRG

SUBJECT: KUWAIT LPG NEGOTIATIONS

REF: KUWAIT 2326

1. ON MAY 15, GULF OIL REGIONAL REPRESENTATIVE ANDERSON PROVIDED THE FOLLOWING UPDATE ON HIS COMPANY'S AND OTHER COMPANIES' NEGOTIATIONS WITH KUWAIT FOR LONG TERM PURCHASE ON LIQUID PETROLEUM GAS (LPG).

2. BECAUSE OF THE HIGH DEMAND FOR LPG, THE GOK HAS NOT BUDGED IN ITS DEMANDS THAT THE PRICE BE "THE PREVAILING LIMITED OFFICIAL USE

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GULF PRICE" AND THAT PHASE-OUT BE OVER A NINE-MONTH PERIOD (AS DETAILED IN REFTEL). GULF OIL HAD WANTED TO PURCHASE 530,000 TONS PER YEAR FOR THE U.S. MARKET AND 320,000 TONS PER YEAR FOR THE JAPANESE MARKET. HOWEVER, BECAUSE THE KUWAIT PRICE PLUS FREIGHT COST WOULD AMOUNT TO AT LEAST \$20 MORE THAN THE U.S. PRICE AND BECAUSE GULF OIL COULD NOT BE SURE THAT THE U.S. PRICE

WOULD RISE, MAKING PURCHASE FROM KUWAIT FEASIBLE, THE COMPANY HAD DECLINED TO INITIAL ANY CONTRACT FOR PURCHASE OF LPG FOR THE U.S. IT HAD, HOWEVER, OFFERED TO PURCHASE 320,000 TONS PER YEAR OF LPG FOR THE JAPANESE MARKET.

3. ANDERSON SAID THAT HE UNDERSTOOD THAT BESIDES THE JAPANESE FIRMS, WHICH HAD ALL INITIALED CONTRACTS, AT LEAST TWO AMERICAN FIRMS HAD INITIALED CONTRACTS--PETRO-LANE (FOR 250,000 TONS PER YEAR) AND NORTHERN NATURAL (FOR 250,000 TONS PER YEAR). HOWEVER, ANDERSON FELT THAT IF THE U.S. PRICE DID NOT RISE, THE U.S. COMPANIES WOULD BE LIKELY TO CITE FORCE MAJEURE OR SOME OTHER REASON TO GET OUT OF THEM. GULF, WITH ITS LONG TERM OIL PURCHASING RELATIONSHIP WITH KUWAIT, COULD NOT AFFORD SUCH TACTICS.

4. ANDERSON UNDERSTANDS THAT ALL CONTRACTS INITIALED BY AMERICAN OR JAPANESE FIRMS ARE SUBJECT TO TWO CONDITIONS: (A) APPROVAL BY RESPECTIVE HOME OFFICES AND (B) FURTHER DISCUSSION RE USE OF KUWAITI SHIPPING. FIRST POINT, ANDERSON COMMENTED, COULD EVENTUALLY BE A WAY FOR JAPANESE TO GET OUT OF CONTRACTS, IF THEY COULD CITE OPPOSITION BY MITI. SECOND COULD POSE MAJOR PROBLEMS BECAUSE KUWAITIS ARE TALKING ABOUT RATES FOR TWO NEW KUWAITI LPG TANKERS OF AS MUCH AS \$40-50 PER TON, COMPARED TO A PREVAILING FREIGHT CHARGE FROM THE GULF TO JAPAN OF ABOUT \$22 PER TON. HIGH KUWAITI RATES ARE RESULT OF PURCHASE OF VERY EXPENSIVE TANKERS FROM FRENCH SHIPYARD AT \$65-75 MILLION PER TANKER COMPARED TO TANKERS BEING PRESENTLY LIMITED OFFICIAL USE

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OFFERED BY JAPANESE SHIPYARDS FOR 1979 DELIVERY AT \$36 MILLION PER TANKER.

5. COMMENT: LIKE MOST NEGOTIATIONS WITH KUWAIT ON ANYTHING TO DO WITH HYDROCARBONS, LPG DISCUSSIONS ARE LIKELY TO DRAG ON FOR SOME TIME BEFORE FINAL CONTRACTS ARE SIGNED.
MAESTRONE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LPG, CONTRACTS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 16-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977KUWAIT02663
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770173-1014
Format: TEL
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770554/aaaabuco.tel
Line Count: 105
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cf234693-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 KUWAIT 2326
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2507933
Secure: OPEN
Status: NATIVE
Subject: KUWAIT LPG NEGOTIATIONS
TAGS: ENRG, KU
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/cf234693-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009